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BILLION INDUSTRIAL HOLDINGS LIMITED

百宏實業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2299)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcements of Billion Industrial Holdings Limited (the “**Company**”) dated 10 December 2020, 31 December 2020, 1 February 2021, 2 February 2021, 30 June 2021 and 29 December 2021 (the “**Announcements**”) and the circular of the Company dated 13 January 2021 (the “**Circular**”). Unless otherwise stated, terms used herein shall have the same meanings as those defined in the Announcements and the Circular.

The Board would like to supplement the following:

PRICING POLICY FOR CONTINUING CONNECTED TRANSACTIONS

The basis of determining the prices of the products or services to be supplied to or purchased by the Group under each of the Additional Sales Agreements and the Additional Purchase and Processing Agreements will be in accordance with the prevailing market prices of similar products and based on the following principles:

- (i) by reference to the prevailing market price of the same or substantially similar products or services, taking into account the price of the same or substantially similar products or services with comparable order quantities and quality offered to/by other purchasers, suppliers or processing service providers (as the case may be); and
- (ii) if there are not sufficient comparable transactions in (i) above, on normal commercial terms comparable to those currently offered by the Group to, or received by the Group from, independent third parties in respect of the same or substantially similar products or services with comparable quantities.

Given that none of the products or services under the Additional Sales Agreements and the Additional Purchase and Processing Agreements has a fixed unit price or standard price, or has a published reference price, in determining the prevailing market price for the products or services for a particular contract, the Group will:

- (a) in respect of sale of products to each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam, evaluate and assess the scope of the relevant order and the Finance Department (財務部) will prepare a detailed cost calculation by reference to the cost of materials, products and labours, up to two (if any) quotes of the Group to other independent third party customers and the level of fees charged by competitors of the Group in the market (if available) to ensure that the prices and terms of the products of the Group are competitive and comparable to those being offered to independent third party customers of the Group. The Group has a standard pricing policy for its sales which is applicable to all customers. Pursuant to such standard pricing policy, the Sales and Marketing Department (營銷部) is primarily responsible for providing price quotations to customers and setting prices for the Group's products in the Group's day-to-day operations, taking into account the cost of such products, the customer's view, and competitors' pricing information. Under certain special circumstances, pricing of products will be subject to approval by the president and the cost committee of Billion Fujian or Billion Vietnam (as applicable), which comprise the president, head of sales, head of finance, head of procurement and head of production of the relevant company. Such circumstances include: (i) special discount; (ii) non-standard products; (iii) discount requested by the customer due to quality issues; (iv) discount requested by the customer due to delay in delivery; (v) volume discount requested by the customer; (vi) products sourced externally; (vii) new products; and (viii) mode of transaction and payment terms, and other circumstances related to the above. In setting or revising the pricing for the products, market prices are obtained by reference to production cost and up to two (if any) recent transaction prices of the Group within one month, and through enquiry with other industry players and researches on industry websites. The prices for the products to be sold to a connected person will be governed by such pricing policy and will not be less favourable than the price of similar products sold by the Group to independent customers. Orders, including the prices contained therein, for the products to be supplied by the Group under each of the Additional Sales Agreements have to be reviewed and approved by the Sales and Marketing Department (營銷部) and the Costing Department (成本核算部) of Billion Fujian and Billion Vietnam (as the case may be) and under certain circumstances, such as a modification of the selling price due to quality-related issues or orders involving new products of Billion Fujian and Billion Vietnam, by the Costing Committee (成本研究委員會) of the Group as well; and

- (b) in respect of procurement of products and services from Baikai Paper and Baikai Vietnam, invite quotations from at least two independent suppliers to get a reference on the prevailing market prices for the relevant products or services to be procured. Such quotations will be reviewed and evaluated from both the technical and commercial perspectives by the Quality Management Department (品質管理部) and compared against the quote from Baikai Paper and Baikai Vietnam to ensure that the products or services to be procured from Baikai Paper and Baikai Vietnam are comparable to the prices and terms for such products or services being offered by independent third parties. The Group will, based on the initial quotations from Baikai Paper and Baikai Vietnam and the independent suppliers, invite the independent suppliers to submit a revised offer. The revised offers will again be compared with the offer of Baikai Paper and Baikai Vietnam and procurements will only be made from Baikai Paper and Baikai Vietnam if the price and terms offered are competitive and comparable to those offered by independent suppliers. Orders, including the prices contained therein, for the products or services to be purchased by the Group under each of the Additional Purchase and Processing Agreements have to be reviewed and approved by the Procurement Department (採購部) of Billion Fujian or Billion High-tech or Billion Vietnam (as the case may be).

INTERNAL CONTROL MEASURES

In respect of Pricing Policy

To ensure that the actual prices for the continuing connected transactions of the Group are on normal commercial terms and on terms no less favourable to the Group than that available from independent third party suppliers or customers, the Group will conduct regular checks to review and assess whether the products have been supplied or purchased in accordance with the terms of the relevant agreement and the pricing policy set out above. In addition, the Company has engaged the auditors of the Company to conduct an annual review of the continuing connected transactions of the Group.

Given that sales to Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam have to strictly adhere to the pricing policy of the Group, and that procurements of the Group from Baikai Paper and Baikai Vietnam are based on prevailing market prices after comparison with offers from independent suppliers, the Directors, including the independent non-executive Directors, are of the view that the procedures adopted by the Group as described in the sections headed “Price Policy for Continuing Connected Transactions” and “Internal Control Measures - In respect of Pricing Policy” above could ensure that the aforementioned continuing connected transactions of the Group will be conducted on normal commercial terms or better, and are fair and reasonable and in the interests of the Shareholders as a whole.

In respect of Annual Cap

To ensure that the transaction value of the transactions under each of (i) the Additional Sales Agreements (as aggregated) and (ii) Additional Purchase and Processing Agreements (as aggregated) respectively shall fall within the 5% threshold, i.e. RMB421,552,000 and RMB421,552,000, the Group has adopted the following internal control measures:

- (a) the Finance Department (財務部) shall keep a contemporaneous log of transactions made pursuant to the Additional Sales Agreements and the Additional Purchase and Processing Agreements;
- (b) before any transaction pursuant under the Additional Sales Agreements and the Additional Purchase and Processing Agreements is made, the Finance Department (財務部) shall check the log of transactions to make sure that the aggregated transactions amount having considered the proposed transaction would not exceed the 5% threshold;
- (c) the Finance Department (財務部) shall conduct a monthly review at the end of each month to confirm that the log of transaction has been properly kept and that the aggregated transactions made so far has not exceeded the 5% threshold;
- (d) Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam would be required to provide all information required to enable the Group to perform the above internal control measures;
- (e) to the extent that any of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam is aware that further transactions pursuant to any of the Additional Sales Agreements or the Additional Purchase and Processing Agreements would cause the aggregate transaction amount to exceed the annual caps, they are required to inform the relevant members of the Group and stop the performance of the relevant transaction immediately.

The Directors, including the independent non-executive Directors, are of the view that the procedures adopted by the Group as described above could ensure that transactions under the Additional Sales Agreements or the Additional Purchase and Processing Agreements would be performed within the respective annual caps.

BASIS OF DETERMINATION OF THE ANNUAL CAP

During the 11 months ended 30 November 2021, the aggregate transactions amount made under the Additional Sales Agreements and the Additional Purchase and Processing Agreements are as follows:

	During the 11 months ended 30 November 2021 (RMB'000) (unaudited)
Additional Sales Agreements	341,965
Additional Purchase and Processing Agreements	273,873

As disclosed in the Circular, the original proposed annual caps for each of the years ending 31 December 2021 and 31 December 2022 for the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements were as follows:

	The year ending 31 December	
	2021	2022
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
2021 Sales Agreements	1,148,650	1,148,650
2021 Purchase and Processing Agreements	627,000	636,000

The transactions amount made under the Additional Sales Agreements and the Additional Purchase and Processing Agreements were substantially lower than the relevant proposed annual caps for the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements respectively because the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements were not approved by the Independent Shareholders at the EGM, and as a result, the parties to the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements agreed to perform the relevant transactions under the Additional Sales Agreements and the Additional Purchase and Processing Agreements with a 5% threshold respectively, which were then RMB350,802,000 and RMB350,802,000 respectively.

Pursuant to the current state of negotiation with Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam, the transaction amounts for the New Agreements (as aggregated with the respective annual caps for the Additional Sales Agreements and the Additional Purchase and Processing Agreements respectively) are expected to be no less than the annual caps for the 2021 Sales Agreements and 2021 Purchase and Processing Agreements respectively. The parties to the Additional Sales Agreements and the Additional Purchase and Processing Agreements expect that the each of the annual caps of RMB421,552,000 and RMB421,552,000 respectively for the period from 1 January 2022 to 30 June 2022 (both dates inclusive) is a fair and reasonable estimate of the transactions amount for the transactions to be performed pursuant to the Additional Sales Agreements and the Additional Purchase and Processing Agreements respectively up to the extraordinary general meeting to be held by the Company for approval of the New Agreements, the transactions contemplated therein and the annual caps to be proposed.

As at the date of this announcement, the terms and the annual caps for the New Agreements have yet been finalized. The Company will make further announcement and, if applicable, issue a circular in relation to the New Agreements for the Independent Shareholders' approval as and when appropriate.

All information and contents set out in the announcement dated 29 December 2021 remain unchanged and shall continue to be valid for all purposes. This announcement is supplemental to and should be read in conjunction with the announcement dated 29 December 2021.

By order of the Board of
Billion Industrial Holding Limited
Sze Tin Yau
Co-chairman

Hong Kong, 4 January 2022

As at the date of this announcement, the Board comprises Mr. Sze Tin Yau and Mr. Wu Jinbiao as executive directors, Mr. Zhang Shengbai as non-executive director and Mr. Chan Shek Chi, Mr. Lin Jian Ming and Mr. Shih Chun Pi as independent non-executive directors.